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C O N F I D E N T I A L SECTION 01 OF 02 ASUNCION 000567

SIPDIS

STATE FOR WHA/BSC; NSC FOR KIM BREIER; SOUTHCOM FOR POLAD  
DAN JOHNSON

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SUBJECT: PARAGUAY: FM ON VENEZUELA, MONTGOMERY WATSON  
HARZA, FTAA, OPEN SKIES, MILITARY EXERCISES, UNCHR VOTES,  
ARTICLE 98

REF: A. ASUNCION 0519

[1B](#). ASUNCION 0526

Classified By: Political Chief James P. Merz, reasons 1.4 (b) and (d).

[¶11.](#) (U) In a 4/21 meeting, FM Rachid and Ambassador discussed the assault on Paraguay's Ambassador to Venezuela, proper compensation of U.S. firm Montgomery Watson Harza, FTAA progress, status of an Open Skies agreement, Congressional consideration of privileges and immunities for participants in U.S.-Paraguayan military exercises, key UNCHR votes, and the status of Article 98 negotiations.

Venezuela's Response to Attack on Paraguayan Ambassador

[¶12.](#) (U) Ambassador qualified as "ridiculous" comments by Venezuela's Ambassador to Paraguay Jose Huerta Castillo implying that the U.S. was involved in the attack on Paraguay's Ambassador to Venezuela Ana Maria Figueredo on 4/8. Rachid agreed. She suspected that Figueredo had been targeted in a bad neighborhood for mere suspicion that she was a member of Venezuela's wealthy elite. Paraguay had demanded that Venezuela provide Figueredo with proper protection.

Proper Compensation for MWH

[¶13.](#) (U) Montgomery Watson Harza (MWH), a U.S. engineering firm, designed and oversaw construction of the Yacyreta Dam which is administered by a joint Paraguayan and Argentine Binational Entity. The Binational Entity has canceled its contract with MWH and owes MWH more than USD 1 million for work done prior to contract cancellation as well as a cancellation fee. Ambassador noted that GOA Minister Devito has agreed to pay MWH but Paraguay's representative Carlos Goiburu continues to study the issue. The U.S. Congress has registered interest in the case. Ambassador requested FM's good offices in gaining Paraguayan agreement to proper compensation for MWH. Rachid asked for letters exchanged on the case and said she would look into it.

FTAA Negotiations

[¶14.](#) (U) Ambassador conveyed U.S. views regarding FTAA in wake of recent negotiations with Brazil. Integrating our hemisphere economically will help all our people prosper and compete more effectively in a global economy. Rachid offered support in principle but nothing concrete regarding next steps. Paraguay has tended to follow Brazil's lead on FTAA negotiations.

Open Skies

[¶15.](#) (U) Ambassador stressed the importance the U.S. attached to the signing of an Open Skies agreement. Such an agreement would foster greater competition in the airline industry and create opportunities for new companies. Rachid signaled her support for an agreement and her understanding that a deal to produce an agreement was under consideration. Note: Since the meeting with the FM, the Vice President contacted the Ambassador to prepare a May 2nd signing. End note.

Military Exercises

[¶16.](#) (U) Ambassador thanked Rachid for expeditious MFA movement on the U.S. dipnote seeking diplomatic privileges and immunities for U.S. participants in U.S.-Paraguayan military exercises over the period extending from 7/2005 through 12/2006. The MFA has offered its agreement to the terms laid out in our March dipnote. The Paraguayan Congress will review this request over the next several weeks.

Paraguay Supports Key UNCHR Votes

**17.** (C) Ambassador applauded Paraguay's decision to support the UNCHR Resolution condemning human rights violations in Belarus which demonstrated its commitment to human rights. Rachid conveyed personal satisfaction in the victory scored in defeating Cuba's resolution on Guantanamo particularly when juxtaposed with adoption of the U.S. sponsored resolution on Cuba.

Article 98 Negotiations Under Review

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**18.** (C) Ambassador conveyed disappointment with the GOP position adopted in recent negotiations between USG and GOP lawyers. In the wake of Rachid's constructive participation in negotiations in Washington in March, we had hoped our lawyers could forge meaningful progress. Instead, Paraguay had taken a step backwards reverting to positions we had already dismissed as untenable. Rachid said that she had not had a chance to discuss developments with the GOP lawyer but expressed her willingness to reenter discussions with Washington interlocutors. Rachid departs for Washington on 4/28 in order to be present for the 5/2 OAS SYG vote. She was prepared to review U.S. proposals and conveyed willingness to explore bringing the GOP's lawyer with her to Washington to participate in negotiations. Notwithstanding the Arab Summit 5/9-11 and the Mercosur Summit 6/18-20 she expected to be in country and available for negotiations in the coming months.

**19.** (C) Rachid and her lawyer effectively send contradictory signals regarding the GOP's readiness to produce a satisfactory Article 98 agreement. Their joint participation in negotiations would be helpful in attempting to determine if Paraguay is prepared to negotiate in earnest the concrete terms of an agreement. We request Department provide us with its latest proposals emerging from negotiations with Rachid and her lawyer with a view to setting up a meeting with both of them during her upcoming visit to the U.S. the week of 5/2.

KEANE